Company Registration No: 4170519

PHOTOBIOTICS LIMITED

ANNUAL REPORT

for the year ended

31 July 2005

PHOTOBIOTICS LIMITED

DIRECTORS	Mr R. P. Arnott Dr R.A. Atun Mr G.A. Brown Dr T. Medinger Dr L.R. Milgrom
SECRETARY	Mr A. Paterson
REGISTERED OFFICE	21 Wilson Street London EC2M 2TD
REGISTERED NUMBER	4170519

REPORT AND ACCOUNTS

31 JULY 2005

Pages

PHOTOBIOTICS LIMITED

REPORT OF THE DIRECTORS

The directors present their Report and the Accounts of the company for the year ended 31 July 2005.

PRINCIPAL ACTIVITY
The principal activity of the company is the development of photo dynamic therapies.

DIRECTORS
The directors who served during the period and their interests in the company's shares are:

	Ordinary Shares of 1 pence each at 31 July 2005 and 31 July 2004
Mr R.P. Arnott	-
Dr R.A. Atun	100
Mr G.A. Brown	-
Dr T. Medinger	400
Dr L.R. Milgrom	1,741

SMALL COMPANY
In preparing the above report, the Directors have taken advantage of special provisions applicable to small companies conferred by Part VII of the Companies Act 1985.

Signed on behalf of the board of directors

Till Medinger.

Director
Approved on 19 October 2005

PHOTOBIOTICS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JULY 2005

	Notes	2005 £	2004 £
RESEARCH & DEVELOPMENT COSTS		115,881	163,516
Administrative Expenses		73,422	74,006
OPERATING LOSS	2	189,303	237,522
Interest Receivable		2,128	1,607
LOSS on ordinary activities before taxation		187,175	235,915
TAXATION	3	32,583	64,095
LOSS on ordinary activities after taxation		154,592	171,820
RETAINED LOSS brought forward		691,832	520,012
RETAINED LOSS carried forward		£ 846,424	£ 691,832

All amounts included in the profit and loss account relate to continuing operations

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historical cost equivalents.

PHOTOBIOTICS LIMITED

BALANCE SHEET AT 31 JULY 2005

	Notes	2005 £	2005 £	2004 £	2004 £
FIXED ASSETS					
Intangible fixed assets	4		38,931		38,350
CURRENT ASSETS					
Debtors	5	1,106		118,779	
Bank balance & cash in hand		30,205		104,149	
Short term investments	6	542		542	
		31,853		223,470	
CREDITORS:					
Amounts falling due within one year	7	70,525		451,469	
NET CURRENT ASSETS/(LIABILITIES)			(38,672)		(227,999)
NET ASSETS / (LIABILITIES)		£	259	£	(189,649)
CAPITAL & RESERVES					
Called up share capital	8		273		200
Share premium account	9		846,410		501,983
Profit & loss account	9		(846,424)		(691,832)
EQUITY SHAREHOLDERS' FUNDS		£	259	£	(189,649)

DIRECTORS' STATEMENT

These accounts have not been audited because the company is entitled to the exemption provided by section 249A (1) of the Companies Act 1985 and members have not required the company to obtain an audit of its accounts for the period in accordance with section 249B (2).

The directors acknowledge their responsibilities for ensuring that the company keeps accounting records which comply with section 221 of the Act and preparing accounts which give a true and fair view of the state of affairs of the company as at the end of the period and of its profit or loss for the period in accordance with the requirements of section 226, and which otherwise comply with the requirements of the Act relating to accounts, so far as is applicable to the company.

The accounts have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (June 2002).

Signed on behalf of the board of directors

Director

Approved 19 October 2005

The notes on pages 4 to 7 form part of these accounts

PHOTOBIOTICS LIMITED

NOTES TO THE ACCOUNTS AS AT 31 JULY 2005

1. ACCOUNTING POLICIES

a) Basis of accounting
The accounts have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (June 2002).

b) Cash flow statement
The accounts do not include a cash flow statement because the company, as a small reporting entity, is exempt from the requirement to prepare such a statement under Financial Reporting Standard 1 (revised 1996) "Cash flow statements".

c) Going concern
The accounts have been prepared on the basis that the company is a going concern. The directors estimate that cash held at the date of approval of the accounts within the company is not sufficient to continue funding the activities of the company for a further twelve months. Accordingly, the directors currently plan to secure additional funds by raising further finance, which would enable the company to continue its activities for the foreseeable future. The directors believe that the company will be able to obtain such additional funds and therefore it is appropriate that these accounts are prepared on the going concern basis.

This basis of preparation assumes that the company will continue in operational existence for the foreseeable future, the validity of which depends on the company being able to obtain adequate additional funds to continue its activities. If the company were unable to continue in operational existence for the foreseeable future, adjustments would have to be made to revise the balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise, and to reclassify fixed assets as current assets.

d) Patent Costs & Know How
The cost of the acquisition of patents and trade marks have been capitalised. Renewal costs are written off as incurred.

e) Amortisation
Amortisation is provided at the following rates, on the straight line basis, in order to write off each asset over its estimated useful life:

Patents & Know How	20% per annum

f) Research and development
Expenditure on research and development is written off in the year in which it is incurred.

g) Deferred taxation
The company has adopted FRS 19, "Deferred tax", which, in general, requires provision to be made in respect of all material timing differences. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

g) Administrative expenses
Administrative expenses consists of all overheads.

2. OPERATING LOSS

The operating loss is stated after charging:

	2005	2004
	£	£
Amortisation of intangible fixed assets	11,298	7,250
Directors' emoluments	17,250	41,400

3. TAXATION

	2005	2004
	£	£
Corporation tax payable on the adjusted loss for the year	Nil	Nil
Research and Development tax credits claimed	32,583	64,095

Deferred taxation

	Amount recognised		Amount unrecognised	
	2005	2004	2005	2004
	£	£	£	£
Tax effect of timing differences because of:				
Losses carried forward	-	-	92,760	75,808

4. INTANGIBLE FIXED ASSETS

	Patent Acquisition Costs
	£
COST	
At 1 August 2004	52,024
Additions	11,879
At 31 July 2005	63,903
AMORTISATION	
At 1 August 2004	13,674
Charge for the year	11,298
At 31 July 2005	24,972
NET BOOK VALUE	
At 31 July 2005	38,931
At 31 July 2004	38,350

PHOTOBIOTICS LIMITED

NOTES TO THE ACCOUNTS AS AT 31 JULY 2005

5. DEBTORS

	2005	2004
	£	£
Other debtors and prepayments	1,106	118,779

6. SHORT TERM INVESTMENTS

Short term investments comprise deposits which are not repayable on demand.

7. CREDITORS: Amounts falling due within one year

	2005	2004
	£	£
Trade creditors	1,973	24,252
Related parties (note 11)	62,453	9,183
Other creditors and accruals	6,068	20,189
Social security and other taxes	31	2,845
Convertible loan notes	-	395,000
	70,525	451,469

The Convertible promissory notes in issue at 31 July 2004 were converted to shares on 10 June 2005 (see note 8 below).

Subsequent to the balance sheet date the company has received £25,000 in Convertible loans. These may be converted to Ordinary 1 pence shares at any time up to 24 months from the date of issue.

8. CALLED UP SHARE CAPITAL

	2005	2004
	£	£
Authorised		
100,000 Ordinary shares of 1 pence each	1,000	1,000
Allotted, Called Up & Fully Paid		
27,316 (2004:20,000) Ordinary shares of 1 pence each	273	200

On 10 June 2005 the Promissory notes were converted to shares by the allotment of 7,316 Ordinary shares of 1 pence each for a total consideration (net of expenses) of £344,500.

Warrants have been issued in respect of 731 shares at a value between a minimum of £50 per share or a maximum equivalent to 10% of the amount raised by any private placement. These warrants are exercisable on the earlier of four years from the date the note was issued, a listing, a sale of the company or substantially all its assets, or insolvency.

9. RESERVES

	Share Premium Account	Profit & Loss Account
	£	£
At 1 August 2004	501,983	(691,832)
Premium on shares issued (net of expenses)	344,427	-
Retained loss for the period	-	(154,592)
At 31 July 2005	846,410	(846,424)

10. CONTROL

The company is not under the control of any one individual or organisation.

11. RELATED PARTY TRANSACTIONS

Imperial College (through Imperial College Innovations Limited) is a related party by virtue of its shareholding in Photobiotics Limited. During the year a total of £75,772 (2004: £111,379) was payable to Imperial College and Imperial College Innovations Limited in respect of costs incurred. At 31 July 2005 £62,453 (2004: £9,183) was outstanding and is included in creditors.

PHOTOBIOTICS LIMITED

DETAILED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 JULY 2005

	2005		2004	
	£	£	£	£
RESEARCH & DEVELOPMENT EXPENSES				
Development Agreements Costs		63,519		106,423
Research Staff Costs		46,086		46,103
Technical Consultancy		-		8,167
Other Development Costs		6,276		2,823
		---------		---------
		115,881		163,516
ADMINISTRATIVE EXPENSES				
Commercial Consultancy	29,700		-	
Website Costs	320		218	
Entertaining	-		191	
Travel & Subsistence	1,167		1,046	
Amortisation	11,298		7,250	
Directors' Remuneration	17,250		41,400	
Employer's NIC	2,208		4,692	
Conferences, Training & Recruitment	90		1,400	
Office Expenses	126		282	
Repairs & Maintenance	-		20	
Couriers & Telephone	386		686	
Accountancy fees	2,200		1,900	
Insurances	3,013		3,010	
Legal Fees	3,500		9,228	
Professional Fees	1,530		1,350	
Printing & Stationery	424		1,164	
Bank Charges	210		169	
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		73,422		74,006
		---------		---------
		189,303		237,522
Interest Receivable		2,128		1,607
		---------		---------
NET LOSS FOR THE YEAR		187,175		235,915
R&D Tax Credits Claimed		32,583		64,095
		---------		---------
RETAINED LOSS FOR THE YEAR		£ 154,592		£ 171,820
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